

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L EC BRUSSELS 4288

E.O. 11652: GDS
TAGS: EEC, PFOR, OPIC
SUBJECT: EURO-ARAB DIALOGUE-INVESTMENT ASPECTS

REFS: (A) STATE 29417, (B) EC BRUSSELS 1480
(C) EC BRUSSELS 3260

1. ACCORDING TO EC COMMISSION SOURCES, WORK IN PROCEEDING SLOWLY WITHIN THE COMMISSION ON THE DRAFT OF EURO-ARAB CONVENTION ON INVESTMENT PROTECTION. COMMISSION APPROVAL OF THE DRAFT CONVENTION IS LIKELY BY THE END OF MAY, AFTER WHICH IT WILL BE CIRCULATED TO MEMBER STATES FOR THEIR COMMENTS.

2. OUR SOURCES HAVE BEEN UNWILLING TO PROVIDE US A COPY OF THE DRAFT, SINCE IT IS STILL A WORKING DOCUMENT. HOWEVER, WE HAVE BEEN PROMISED A COPY AFTER COMMISSION APPROVAL. IN THE MEANTIME, A COMMISSION SOURCE HAS OUTLINED ITS CONTENTS:

3. FOLLOWING A DEFINITION OF INVESTMENTS TO BE COVERED (WHICH WE ARE TOLD IS CREATING SOME DIFFICULTIES), THE CONVENTION COVERS FOUR MAJOR POINTS: (1) NON-DISCRIMINATORY TREATMENT OF INVESTMENTS; (2) FREE TRANSFER OF PROFITS AND REPATRIATED CAPITAL; (3) FAIR COMPENSATION FOR
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EXPROPRIATED INVESEMTNS; (4) PROCEDURES FOR ARBITRATION OF DISPUTES ARISING OUT OF THE PROVISIONS OF THE CONVENTION. ALL PROVISIONS ARE FULLY RECIPROCAL. WE ARE ASSURED THAT THERE IS NO PROVISION ON THE PROTECTION OF INVESTMENTS FROM EXCHANGE RISKS OR INFLATION. SOURCES ARE RELUCTANT TO PROVIDE FURTHER DETAILS ON THE ABOVE PROVISIONS, PENDING FINAL APPROVAL BY THE

COMMISSION.

4. NO DATE HAS BEEN SET FOR THE NEXT MEETING OF THE SUBGROUP ON INVESTMENT PROTECTION OF THE FINANCIAL WORKING GROUP, AND WE ARE TOLD THAT IT DOES NOT NOW APPEAR LIKELY THAT THERE WILL BE A MEETING OF THE SUB-GROUP BEFORE THE GENERAL MEETING IN SEPTEMBER. ONE WORKING LEVEL SOURCE SUGGESTED THAT THERE WAS POLITICAL LEVEL BLOCKAGE TO FURTHER MEETINGS OF THE SUBGROUP, BUT ANOTHER SOURCE MERELY ATTRIBUTES THIS DELAY TO THE SLOW PACE OF INTERNAL COMMUNITY PROCESSES.

5. WE RECEIVED A NEGATIVE RESPONSE TO OUR QUESTION WHETHER THIS DELAY MIGHT REFLECT THE IMPASSE OVER DEMANDS FROM THE ARAB SIDE FOR PROTECTION AGAINST MONETARY RISKS (I.E., INFLATION AND EXCHANGE RISKS). EC SOURCES FEEL THE ARABS FULLY UNDERSTAND THE CATEGORICAL NATURE OF THE REFUSAL OF THE EC SIDE TO CONSIDER INCLUSION OF ANY PROTECTION AGAINST MONETARY RISKS. ALTHOUGH IT IS EXPECTED THAT THIS ISSUE WILL CONTINUE TO BE PRESSED BY THE RICH OI-SURPLUS ARAB STATES (IF ONLY AS A MATTER OF FORM) THEY APPEAR TO BE INTERESTED ALSO IN THE OTHER ASPECTS OF INVESTMENT PROTECTION, AND IT IS THOUGHT THEY WILL PROBABLY BE WILLING TO GO AHEAD WITH A SEPARATE AGREEMENT ON THESE.

6. COMMISSION OFFICIALS ADD THAT PREPARATION OF DRAFT INVESTMENT AGREEMENT WITH ARAB COUNTRIES IS GOING AHEAD IN PARALLEL WITH COMMISSION EFFORTS TO DRAW UP EC ARRANGEMENTS
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TO PROMOTE FOREIGN PRIVATE INVESTMENT IN LDC RAW MATERIALS (SEE REF C.) THEY BELIEVE THAT DRAFT FOR EURO-ARAB DIALOGUE WILL LIKELY SERVE AS A MODEL FOR AGREEMENT WITH OTHER LDCS.HINTON

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